

**SANBORN ELECTRIC AND  
TELECOMMUNICATIONS UTILITY**

**INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

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**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**OFFICIALS**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
James P. Cravens	Chairman	June 30, 2007
Terry Boelter	Secretary	June 30, 2009
Charles Schroeck	Trustee	June 30, 2011
<b>Utility Officials</b>		
Jim Zeutenhorst	General Manager	Indefinite



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Sanborn Electric and Telecommunications Utility

We have audited the accompanying financial statements of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Utility's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sanborn Electric and Telecommunications Utility and do not purport to, and do not, present fairly the financial position of the City of Sanborn, Iowa, as of December 31, 2006 and 2005, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

### Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-end tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
- Small business management help • Computer consulting • IRS representation • Litigation support

### For your convenience:

- Direct access to the principal(s) always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Tens-day turnaround on financial statements
- Meetings at your place or ours

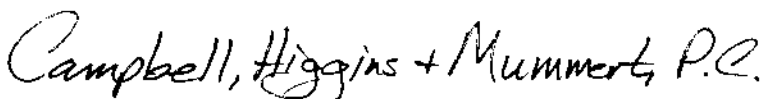
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In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2007 on our consideration of the Sanborn Electric and Telecommunications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sanborn Electric and Telecommunications Utility's basic financial statements. The supplementary information on pages 22 to 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CAMPBELL, HIGGINS & MUMMERT, P.C.  
Certified Public Accountants

June 12, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management of Sanborn Electric and Telecommunications Utility provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- The Utility's cash and cash equivalents increased 25.3%, or approximately \$177,000, from December 31, 2005 to December 31, 2006.
- Operating revenue increased 8.0%, or approximately \$106,000, from 2005 to 2006.
- Operating expenses increased 6.5%, or approximately \$73,000, from 2005 to 2006.
- The Utility's total net assets increased 12.3%, or approximately \$267,000, from December 31, 2005 to December 31, 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the utility's financial activities.

The Basic Financial Statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Utility, on a comparative basis, including resources held by the Utility but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, and Supplementary Information provides detailed information about the operations of the Utility.

## **REPORTING THE UTILITY AS A WHOLE**

### **The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets**

One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better or worse off as a result of the year's activities?" The statement of net assets, and the statement of revenues, expenses and changes in net assets report information about the Utility's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net assets and changes in them. The Utility's total net assets – the difference between assets and liabilities – is one measure of the Utility's financial health or financial position. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating. Other non-financial factors, such as changes in the Utility's customer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its customers and local economic factors should also be considered to assess the overall financial health of the Utility.

### **The Statement of Cash Flows**

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

### **Financial Analysis of the Utility**

The Utility's net assets are the difference between its assets and liabilities reported in the statements of net assets. The Utility's total net assets increased by \$266,915 (12.3%) from 2005 to 2006.

#### **Assets, Liabilities and Net Assets**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current Assets -----	\$ 1,087,774	\$ 905,201
Net Capital Assets -----	2,593,296	2,667,766
Assets Whose Use is Limited and Other Assets -----	<u>790,465</u>	<u>730,323</u>
Total Assets	<u>4,471,535</u>	<u>4,303,290</u>
<b>Liabilities</b>		
Current Liabilities -----	317,428	326,098
Net Long-Term Debt -----	<u>1,725,000</u>	<u>1,815,000</u>
Total Liabilities	<u>2,042,428</u>	<u>2,141,098</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt -----	778,296	767,766
Restricted -----	577,643	535,387
Unrestricted -----	<u>1,073,168</u>	<u>859,039</u>
Total Net Assets	<u>\$ 2,429,107</u>	<u>\$ 2,162,192</u>

Restricted net assets increased by \$42,256 from 2005 to 2006 due to long-term debt retirement provisions.

**Financial Analysis of the Utility (Continued)****Revenues, Expenses and Change in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenues -----	\$ 1,429,231	\$ 1,323,437
Operating Expenses -----	<u>1,192,118</u>	<u>1,119,332</u>
Operating Income (Loss) -----	237,113	204,105
Net Non-Operating Revenues (Expenses) -----	<u>89,289</u>	<u>52,102</u>
Net Income (Loss) Before Transfers -----	326,402	256,207
Transfers from (to) Other Entities -----	<u>(59,487)</u>	<u>(67,213)</u>
Increase (Decrease) in Net Assets -----	266,915	188,994
Net Assets at Beginning of Period -----	<u>2,162,192</u>	<u>1,973,198</u>
Net Assets at End of Period -----	<u>\$ 2,429,107</u>	<u>\$ 2,162,192</u>

**Operating Revenues** are the Utility's primary source of revenue and are generated from electric energy sales and other services to customers. For 2006, operating revenues increased \$105,794 from 2005 due primarily to a rate increase effective in November 2005.

**Operating Expenses** represent the Utility's costs to provide electric energy and services to customers. For 2006, operating expenses increased by \$72,786 from 2005 due primarily to increases in purchased power costs.

**Net Non-Operating Revenues (Expenses)** include interest and dividend income, joint venture income, and interest expense. For 2006, net non-operating revenues increased by \$37,187 from 2005 due primarily to an increase in joint venture income.

**Transfers to Other Entities** include transfers to the City of Sanborn and donations to local entities.

**Budgetary Highlights**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearings. The budget may be amended during the year utilizing similar statutorily prescribed procedures. For the year ended December 31, 2006, there were no amendments to the original budget. In addition, the Utility's total disbursements for the year did not exceed the amounts budgeted.



## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2006, the Utility had \$2,593,296 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2006, the Utility acquired or constructed capital assets costing \$58,200, financed by cash and cash equivalents.

### **Debt Administration**

At December 31, 2006, the Utility had \$1,815,000 in long-term debt compared to \$1,900,000 last year.

	<u>2006</u>	<u>2005</u>
2001 Electric Revenue Notes -----	\$ 1,010,000	\$ 1,085,000
2004 Telecommunications Revenue Notes -----	<u>805,000</u>	<u>815,000</u>
Total Long-Term Debt -----	<u>\$ 1,815,000</u>	<u>\$ 1,900,000</u>

The Utility's formal debt issuances are subject to limitations imposed by state law. There have been no changes in the Utility's debt ratings during the past two years. More detailed information about the Utility's long-term liabilities is presented in Note 6 to the financial statements.

## **ECONOMIC FACTORS**

The Utility continued to improve its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Expenses will continue to increase.
- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designated to provide readers with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact the Utility's administration office at 102 Main Street, Sanborn, Iowa.

## **BASIC FINANCIAL STATEMENTS**

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
<b>Assets</b>			<b>Liabilities</b>		
<b>Current Assets:</b>			<b>Current Liabilities:</b>		
Cash and Cash Equivalents -----	\$ 876,703	\$ 699,753	Accounts Payable and Accrued Liabilities -----	99,921	105,901
Accounts Receivable -----	125,462	128,202	Accounts Payable - City of Sanborn -----	17,549	49,194
Accrued Interest Receivable -----	3,047	3,047	Accrued Compensated Absences (Note 7) -----	4,153	3,069
Prepaid Expenses -----	3,538	3,499	Meter Deposits and Credit Balances -----	73,600	51,520
Inventories -----	79,024	70,700	Accrued Interest Payable -----	25,475	27,030
<b>Total Current Assets</b>	<u>1,087,774</u>	<u>905,201</u>	Deferred Revenue -----	6,730	4,384
<b>Assets Whose Use is Limited (Note 3):</b>			Current Maturities of Long-Term Debt -----	90,000	85,000
Advances for Transmission Capacity -----	174,210	161,330	<b>Total Current Liabilities</b>	<u>317,428</u>	<u>326,098</u>
Cash -----	6,730	4,384			
<b>Total Assets Whose Use is Limited</b>	<u>180,940</u>	<u>165,714</u>	<b>Long-Term Debt (Note 6):</b>		
<b>Capital Assets (Note 4):</b>			Revenue Notes -----	1,815,000	1,900,000
Capital Assets -----	5,118,974	5,061,798	Less Current Maturities of Long-Term Debt -----	(90,000)	(85,000)
Less Accumulated Depreciation -----	(2,525,678)	(2,394,032)	<b>Net Long-Term Debt</b>	<u>1,725,000</u>	<u>1,815,000</u>
<b>Net Capital Assets</b>	<u>2,593,296</u>	<u>2,667,766</u>			
			<b>Total Liabilities</b>	<u>2,042,428</u>	<u>2,141,098</u>
<b>Other Assets:</b>					
Restricted Note Funds (Note 6) -----	577,643	535,387	<b>Net Assets</b>		
Investment in Joint Venture (Note 5) -----	18,819	14,784	Invested in Capital Assets, Net of Related Debt -----	778,296	767,766
Bond Discounts, Net of Accumulated Amortization of			Restricted for:		
\$3,437 and \$2,062 for 2006 and 2005, Respectively --	13,063	14,438	Debt Service (Note 6) -----	577,643	535,387
<b>Total Other Assets</b>	<u>609,525</u>	<u>564,609</u>	Unrestricted -----	1,073,168	859,039
			<b>Total Net Assets</b>	<u>\$2,429,107</u>	<u>\$2,162,192</u>
<b>Total Assets</b>	<u>4,471,535</u>	<u>4,303,290</u>			

See Accompanying Notes to Financial Statements

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues:</b>		
Electric Energy Sales -----	\$ 1,417,156	\$ 1,315,526
Other Sales -----	12,075	7,911
<b>Total Operating Revenues</b>	<u>1,429,231</u>	<u>1,323,437</u>
<b>Operating Expenses:</b>		
Power Production -----	755,696	711,768
Distribution -----	108,627	94,352
Commercial -----	46,593	44,690
Sales -----	-	535
Administrative and General -----	281,202	267,987
<b>Total Operating Expenses</b>	<u>1,192,118</u>	<u>1,119,332</u>
<b>Operating Income (Loss)</b>	<u>237,113</u>	<u>204,105</u>
<b>Non-Operating Revenues (Expenses):</b>		
Interest and Dividend Income -----	49,037	36,098
Joint Venture Net Income (Loss) (Note 5) -----	138,135	117,902
Interest Expense -----	(97,883)	(101,898)
<b>Net Non-Operating Revenues (Expenses)</b>	<u>89,289</u>	<u>52,102</u>
<b>Net Income (Loss) Before Transfers</b>	326,402	256,207
Transfers from (to) Other Entities -----	<u>(59,487)</u>	<u>(67,213)</u>
<b>Increase (Decrease) in Net Assets</b>	266,915	188,994
<b>Net Assets at Beginning of Period</b>	<u>2,162,192</u>	<u>1,973,198</u>
<b>Net Assets at End of Period</b>	<u><u>\$ 2,429,107</u></u>	<u><u>\$ 2,162,192</u></u>

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers -----	\$ 1,456,397	\$ 1,300,674
Cash Payments to Suppliers for Goods and Services -----	(925,814)	(815,884)
Cash Payments to Employees for Services -----	(178,539)	(177,320)
<b>Net Cash Provided (Used) for Operating Activities</b>	<u>352,044</u>	<u>307,470</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Transfers from (to) Other Entities -----	(59,487)	(67,213)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchases and Construction of Capital Assets -----	(58,200)	(31,893)
Principal Payments on Long-Term Debt -----	(85,000)	(80,000)
Interest Payments on Long-Term Debt -----	(98,062)	(101,942)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(241,262)</u>	<u>(213,835)</u>
<b>Cash Flows From Investing Activities:</b>		
Interest and Dividends on Investments -----	49,037	35,698
Net Cash (Contributed to) Received From Restricted Note Funds -----	(31,725)	(394)
Capital (Contributed to) Received From Joint Ventures -----	123,569	56,962
Net (Increase) Decrease in Advances for Transmission Capacity -----	(12,880)	3,225
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>128,001</u>	<u>95,491</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	179,296	121,913
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>704,137</u>	<u>582,224</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 883,433</u>	<u>\$ 704,137</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:</b>		
Cash and Cash Equivalents -----	\$ 876,703	\$ 699,753
Cash Limited for a Specific Purpose -----	6,730	4,384
<b>Total Cash and Cash Equivalents</b>	<u>\$ 883,433</u>	<u>\$ 704,137</u>

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY**  
**A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided (Used) by Operating Activities:</b>		
Operating Income (Loss) -----	\$ 237,113	\$ 204,105
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation -----	132,669	133,423
(Increase) Decrease in Assets:		
Accounts Receivable -----	2,740	(15,440)
Prepaid Expenses -----	(39)	-
Inventories -----	(8,324)	(15,310)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities -----	(5,980)	8,989
Accounts Payable - City of Sanborn -----	(31,645)	(1,409)
Accrued Compensated Absences -----	1,084	435
Meter Deposits and Credit Balances -----	22,080	(5,284)
Deferred Revenue -----	2,346	(2,039)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 352,044</u></u>	<u><u>\$ 307,470</u></u>

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Sanborn Electric and Telecommunications Utility is a component unit of the City of Sanborn whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City, which is a political subdivision of Iowa, was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The board of trustees operates the Utility by the authority of Chapter 388 of the Code of Iowa. The Utility provides electric service to the residents and businesses of the City of Sanborn. Cable television, internet and telephone service is provided through the Utility's involvement with the Community Cable Television Agency of O'Brien County. The board of trustees are appointed by the mayor and approved by the city council to six-year terms.

**Reporting Entity**

For financial reporting purposes, the Sanborn Electric and Telecommunications Utility has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Sanborn Electric and Telecommunications Utility has no component units which meet the Governmental Accounting Standard Board criteria.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Interest Capitalization**

The Utility capitalizes interest costs incurred on funds used to construct capital assets. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

**Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased as well as all certificates of deposit to be cash equivalents.

Accounts Receivable – The Utility considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Capital Assets – Capital Assets are carried at cost. The Utility computes depreciation on buildings and equipment using the straight-line method. Lives for the buildings are twenty to fifty years, while the equipment lives range from three to thirty years.

**Statement of Revenues, Expenses and Changes in Net Assets**

For purposes of display, transactions deemed by management to be ongoing, major or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

**Use of Net Assets**

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**NOTE 2 - CASH AND INVESTMENTS**

The Utility's deposits in financial institutions at December 31, 2006 and 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

As of December 31, 2006 and 2005, the Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**NOTE 3 – ASSETS WHOSE USE IS LIMITED**

- A. Advances for Transmission Capacity - These funds were established by thirteen municipal utilities to help jointly construct transmission facilities to enable them to transmit their power needs from the Missouri Basin area to their respective communities.
- B. Cash - The Utility participates in the Low-Income Home Energy Assistance Program (LIHEAP) with Upper Des Moines Opportunity, Inc. LIHEAP helps homeowners and renters pay for a portion of their primary heating costs for the winter heating season. The assistance is based on household income, household size, type of fuel and type of housing. The amount of funds that have been received but have not been applied to a customer account as of the year-end are reflected in this category.

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at December 31, 2006 and 2005 is as follows:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
<b>Capital Assets Being Depreciated:</b>				
Buildings -----	\$ 189,798	\$ -	\$ -	\$ 189,798
Machinery, Equipment, Transmission and Distribution System -----	2,408,808	51,705	-	2,460,513
Vehicles -----	178,755	4,166	-	182,921
Office Equipment -----	33,773	3,288	1,983	35,078
Cable and Internet System -----	1,458,114	-	-	1,458,114
Telephone System -----	792,550	-	-	792,550
Total Capital Assets Being Depreciated	<u>5,061,798</u>	<u>59,159</u>	<u>1,983</u>	<u>5,118,974</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings -----	120,176	3,823	-	123,999
Machinery, Equipment, Transmission and Distribution System -----	1,805,393	47,795	-	1,853,188
Vehicles -----	165,059	4,742	-	169,801
Office Equipment -----	29,798	1,288	1,025	30,061
Cable and Internet System -----	187,340	48,604	-	235,944
Telephone System -----	86,266	26,419	-	112,685
Total Accumulated Depreciation	<u>2,394,032</u>	<u>132,671</u>	<u>1,025</u>	<u>2,525,678</u>
Total Capital Assets, Net	<u>\$ 2,667,766</u>	<u>\$ ( 73,512)</u>	<u>\$ ( 958)</u>	<u>\$ 2,593,296</u>

**NOTE 5 – INVESTMENT IN JOINT VENTURE**

A joint agreement creating Community Cable Television Agency of O'Brien County (the Agency) was signed in September, 1998. The parties involved are the cities of Sanborn (represented by the Utility), Primghar, Hartley and Paullina. The Agency was formed to provide cable television, telephone and internet services to the citizens of the participating communities. The Agency operates on a fiscal year ending each June 30<sup>th</sup> and is audited separately. As a result, the Utility's share of the net income (loss) of the Agency reflects the most recent audited amounts as of June 30, 2006. Audited financial statements of the Agency are available at their office located at 102 South Eastern, Sanborn, Iowa.

The Utility's investment is classified as follows as of December 31, 2006 and 2005:

	2006	2005
Total Investment in Joint Venture -----	\$ 151,699	\$ 137,133
Less Amounts Restricted for Debt Service -----	(132,880)	(122,349)
Investment in Joint Venture – Unrestricted -----	<u>\$ 18,819</u>	<u>\$ 14,784</u>

**NOTE 6 – LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended December 31, 2006 is as follows:

	Balance December 31, 2005	Issuances	Redemptions	Balance December 31, 2006
2001 Electric Revenue Notes -----	\$ 1,085,000	\$ -	\$ 75,000	\$ 1,010,000
2004 Telecommunications Revenue Notes -----	815,000	-	10,000	805,000
Totals	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 1,815,000</u>

Annual debt service requirements to maturity for the revenue notes are as follows:

Year Ending Dec. 31,	2001 Electric Revenue Capital Loan Notes		2004 Telecommunications Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 80,000	\$ 51,980	\$ 10,000	\$ 41,848	\$ 90,000	\$ 93,828
2008	85,000	47,792	10,000	41,472	95,000	89,264
2009	90,000	43,308	15,000	40,966	105,000	84,274
2010	90,000	38,650	15,000	40,329	105,000	78,979
2011	95,000	33,793	15,000	39,661	110,000	73,454
2012	100,000	28,600	15,000	38,964	115,000	67,564
2013	110,000	22,955	20,000	38,117	130,000	61,072
2014	115,000	16,822	20,000	37,123	135,000	53,945
2015	120,000	10,330	20,000	36,097	140,000	46,427
2016	<u>125,000</u>	<u>3,500</u>	<u>665,000</u>	<u>17,789</u>	<u>790,000</u>	<u>21,289</u>
Totals	<u>\$ 1,010,000</u>	<u>\$ 297,730</u>	<u>\$ 805,000</u>	<u>\$ 372,366</u>	<u>\$ 1,815,000</u>	<u>\$ 670,096</u>

The 2001 electric revenue capital loan notes are dated February 2, 2001 and bear interest rates ranging from 4.65% to 5.60%. The 2004 telecommunications revenue capital loan notes are dated July 1, 2004 and bear interest rates ranging from 2.60% to 5.35%.

The resolutions providing for the issuance of the above revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a Sinking Fund for the purpose of making the note principal and interest payments when due.

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

- (c) Monthly transfers equal to 25% of the monthly transfers to the Sinking Fund shall be made to the Reserve Fund until specified minimum balances have been accumulated. This Reserve Fund is restricted for the purpose of making principal and interest payments when there are insufficient funds available in the Sinking Fund.
- (d) Monthly transfers shall be made to the Improvement Fund until specified minimum balances have been accumulated. Amounts in this fund are restricted for the purpose of making principal and interest payments when there shall be insufficient funds in the Sinking and Reserve Funds, paying for extraordinary maintenance and repairs, and paying for capital improvements and related systems expenses.

**Restricted Note Funds**

The Sinking Funds, Reserve Funds and Improvement Funds are combined and shown as Restricted Note Funds on the statements of net assets as follows as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Funds Maintained by the Utility -----	\$ 444,763	\$ 413,038
Restricted Portion of Investment in Joint Venture – Note 5 -----	<u>132,880</u>	<u>122,349</u>
Restricted Note Funds -----	<u>\$ 577,643</u>	<u>\$ 535,387</u>

Total interest costs were \$97,883 and \$101,898 in 2006 and 2005, respectively. No interest costs were capitalized.

**NOTE 7 - COMPENSATED ABSENCES**

Utility employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. Employees can carry over no more than 160 hours of unused vacation time from one calendar year to the next. The Utility's approximate liability for earned but unused vacation was \$4,153 and \$3,069 as of December 31, 2006 and 2005, respectively. These amounts have been accrued and are reflected on the attached financial statements.

Utility employees earn sick and personal leave days for subsequent use. The maximum accumulation is 120 days (960 hours) of sick leave and 2 days (16 hours) of personal leave. Employees are not paid for unused sick or personal leave upon termination, retirement, or death. Accordingly, no accrual for unused sick or personal leave has been record on the attached financial statements.

**NOTE 8 - PENSION AND RETIREMENT BENEFITS**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2006 and 2005 were \$9,135 and \$9,359, respectively, equal to the required contributions for each year.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

The Sanborn Savings Bank, Sanborn, Iowa is the official depository of the Sanborn Electric and Telecommunications Utility. One of the officers of the bank is on the board of trustees of the Sanborn Electric and Telecommunications Utility.

The Utility purchases commercial insurance from the agency that employs a member of the board of trustees.

**NOTE 10 - CONCENTRATION OF CREDIT RISK**

Sanborn Electric and Telecommunications Utility provides services to the residents and businesses of Sanborn, Iowa. The Utility grants credit to these customers.

**NOTE 11 - RISK MANAGEMENT**

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED DECEMBER 31, 2006**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	* Original and Final Budget	Variance Between Cash Basis and Final and Final Budget
<b>Receipts:</b>					
Charges for Service -----	\$ 1,429,231	\$ 27,166	\$ 1,456,397	\$ 1,343,200	\$ 113,197
Use of Money and Property -----	49,037	-	49,037	25,500	23,537
Miscellaneous -----	138,135	(14,566)	123,569	68,850	54,719
<b>Total Revenues</b>	<b>1,616,403</b>	<b>12,600</b>	<b>1,629,003</b>	<b>1,437,550</b>	<b>191,453</b>
<b>Disbursements** -----</b>	<b>1,290,001</b>	<b>42,981</b>	<b>1,332,982</b>	<b>3,314,011</b>	<b>(1,981,029)</b>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	<b>326,402</b>	<b>(30,381)</b>	<b>296,021</b>	<b>(1,876,461)</b>	<b>2,172,482</b>
<b>Other Financing Sources (Uses), Net** -----</b>	<b>(59,487)</b>	<b>(14,982)</b>	<b>(74,469)</b>	<b>1,922,000</b>	<b>(1,996,469)</b>
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)</b>	<b>266,915</b>	<b>(45,363)</b>	<b>221,552</b>	<b>45,539</b>	<b>176,013</b>
<b>Balance at Beginning of Period</b>	<b>2,162,192</b>	<b>(978,329)</b>	<b>1,239,524</b>	<b>1,187,019</b>	<b>52,505</b>
<b>Balance at End of Period</b>	<b>\$ 2,429,107</b>	<b>\$ (1,023,692)</b>	<b>\$ 1,461,076</b>	<b>\$ 1,232,558</b>	<b>\$ 228,518</b>

\* The original budget was not amended during the year ended December 31, 2006.

\*\* The original budget provided for \$2,000,000 of financing and disbursement for a new substation. Financing was not acquired, as this project has been postponed until the Spring of 2008.

See Accompanying Independent Auditors' Report



**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING**

**DECEMBER 31, 2006**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for the enterprise fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. The Utility utilizes only the business-type function. During the year, there were no amendments to the budget.

For the year ended December 31, 2006, disbursements did not exceed the amounts budgeted.

## **SUPPLEMENTARY INFORMATION**

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**SCHEDULES OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Electric Energy Sales:</b>		
Residential -----	\$ 405,601	\$ 376,992
Residential - All Electric -----	107,917	97,290
Industrial -----	675,373	610,819
Commercial -----	137,783	132,187
Commercial - All Electric -----	23,363	28,076
Public Authorities -----	65,973	69,044
Security Lights -----	1,146	1,118
<b>Total Electric Energy Sales</b>	<u>1,417,156</u>	<u>1,315,526</u>
<b>Other Sales:</b>		
Merchandise -----	1,760	5,441
Labor -----	1,826	1,415
Other Revenues -----	8,489	1,055
<b>Total Other Sales</b>	<u>12,075</u>	<u>7,911</u>
<b>Total Sales</b>	<u><u>\$ 1,429,231</u></u>	<u><u>\$ 1,323,437</u></u>

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Power Production Expenses:</b>		
Plant Labor -----	\$ 31,157	\$ 31,588
Supplies -----	20,157	17,874
Purchased Power -----	704,382	662,306
<b>Total Power Production Expenses</b>	<u>755,696</u>	<u>711,768</u>
<b>Distribution Expenses:</b>		
Supervision Labor -----	50,807	48,576
Station and Line Labor -----	28,361	32,049
Miscellaneous Distribution -----	28,101	12,545
Street Lighting and Metering -----	1,358	1,182
<b>Total Distribution Expenses</b>	<u>108,627</u>	<u>94,352</u>
<b>Commercial Expenses:</b>		
Accounting and Collection Labor -----	43,886	42,948
Supplies -----	2,707	1,742
<b>Total Commercial Expenses</b>	<u>46,593</u>	<u>44,690</u>
<b>Sales Expenses:</b>		
Merchandise and Labor for Resale -----	-	535
<b>Administrative and General Expenses:</b>		
Advertising -----	2,882	3,347
City Hall -----	4,527	5,060
Depreciation -----	132,669	133,423
Dues and Subscriptions -----	7,607	8,587
Employee Benefits -----	46,414	47,582
Insurance -----	14,313	14,963
Meeting -----	2,066	2,032
Miscellaneous General -----	6,381	1,532
Office Supplies -----	3,448	2,836
Outside Services -----	26,320	15,769
Salaries and Wages -----	27,063	25,812
Transportation -----	6,818	7,044
Uniform -----	694	-
<b>Total Administrative and General Expenses</b>	<u>281,202</u>	<u>267,987</u>
<b>Total Operating Expenses</b>	<u>\$ 1,192,118</u>	<u>\$ 1,119,332</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of  
Sanborn Electric and Telecommunications Utility

We have audited the accompanying financial statements of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 12, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

**BUSINESS SERVICES THAT SAVE YOU MONEY:**

- Business & individual tax preparation • Mid-year tax planning • Year-end tax planning
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- Small business management help • Computer consulting • IRS representation • Litigation support

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- Direct access to the principal(s) always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-06 is a material weakness.

#### Compliance and Other Matters

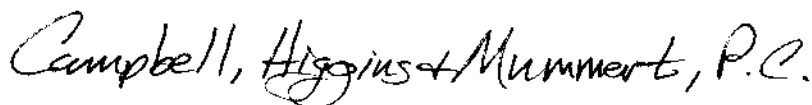
As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Sanborn Electric and Telecommunications Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



CAMPBELL, HIGGINS & MUMMERT, P.C.  
Certified Public Accountants

June 12, 2007

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006**

**Part I: Findings Related to the Financial Statements:**

**Significant Deficiencies:**

- I-A-06    Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person performs most of the accounting functions.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Sanborn Electric and Telecommunications Utility will try to segregate duties between office staff by reviewing operating procedures to have more internal control.

Conclusion – Response accepted.

- I-B-06    Financial Reporting – During the audit, we identified and proposed adjusting entries which were material in amount relating to the following accounts: cash, inventories, capital assets, investment in joint venture, meter deposits and credit balances as well as the related income and expense accounts. Adjustments were subsequently made by Utility personnel to correct these items.

Recommendation - The Utility should implement procedures to ensure that all account balances are properly recorded.

Response – The Utility will implement procedures to ensure that account balances are properly recorded.

Conclusion – Response accepted.

- I-C-06    Inventories – During the audit, we noted that inventories were not being reconciled on a consistent basis throughout the year and at year-end.

Recommendation - In order to accurately record transactions relating to inventories throughout the year, inventory should be reconciled on a monthly or quarterly basis throughout the year.

Response – The Electric Superintendent will be directed to record inventory at least quarterly.

Conclusion – Response accepted.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2006**

**Part II: Other Findings Relating to Statutory Reporting:**

- II-A-06 Official Depositories – A resolution naming official depositories for the City of Sanborn and Sanborn Electric and Telecommunications Utility has been approved. As of December 31, 2006, the combined City and Utility bank balances at Sanborn Savings Bank exceeded the depository limit by approximately \$405,000.

Recommendation - The Utility should approve its own depository resolution and care should be taken to ensure that the depository limit is not exceeded.

Response – The board will pass its own depository resolution.

Conclusion – Response accepted.

- II-B-06 Certified Budget – Disbursements for the year ended December 31, 2006 did not exceed the amounts budgeted.

- II-C-06 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-06 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

- II-E-06 Business Transactions – Other than as disclosed in note 9 to the financial statements, no business transactions between the Utility and Utility officials or employees were noted.

- II-F-06 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-G-06 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

- II-H-06 Revenue Notes – No violations of the provisions of the revenue notes were noted.

- II-I-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

- II-J-06 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.